

Best ways to

REPAY DEBT



Create a budget

The very first step to solve the debt problem is to establish a budget.

This gives you a clear idea about your income and expenses. Start categorizing each expense and scrutinize it further to identify where all you can cut costs. This will help you to scale back on your spending and find extra funds which can be used to clear your debt.

List out all your debt

The next step to debt planning is to list out all your debts in an order either on the size of the debt (outstanding principal) or the cost of the debt (the interest rate) or the size of the monthly commitments (EMI). This will give you a clear idea on how to prioritize the repayment.



Apply different payoff strategies

Once you line up your debt you can adopt different strategies to clear off your debt. The common ones are:

Avalanche method, in this you list your debts from highest to lowest by interest rate. Pay the minimum monthly commitment on each, then dedicate as much extra as you can each month to the one with the highest interest rate. This method helps to save you the most money on interest.



Snowball method, in this method you prioritise your smallest debt first regardless of interest rate and start clearing the smallest one first. Pay the minimum monthly commitment on each one, except the smallest. For that one, dedicate as much cash as possible each month until it is repaid. Then move on to the next smallest debt. In this you'll gain momentum by watching debts disappear as you would watching a snowball grow bigger and bigger and that will motivate you to continue.

Take advantage of balance transfers

If you have a high interest rate loan running on a low interest rate market, then make sure that you use the balance transfer facility. Some firms even give the opportunity for a free balance transfer. This will help you reduce the cost of the loan and save more, which can be diverted into the principle of the loan for a faster closure.

Allocate your job bonus towards debt payoff

If you are a person who receives a job bonus on a yearly basis or on specific intervals, allocate that money toward your debt payoff plan. Avoid the temptation to spend those bonus on luxury purchases or vacations. It's more important to fix your financial situation than own the latest luxury phone or watch.



Sell off unwanted household items and gifts

We usually have a lot of items at our home which we hardly use anymore, be it items purchased for our hobbies or gifted by someone on certain occasions. These items can be sold which can be contributed to your debt closure if you control your emotions and act wisely. There are lot of classified ad websites which can be used for this.

Change your habits for good

If you are neck deep in debt, realize that it is your habits and routines that got you into this situation. Spend some time evaluating how you spend your money each day, each week and each month. And whenever you want to buy something expensive, ask yourself the questions – ‘Do I really need it now?’, ‘Is there a less expensive alternative?’



Set milestones and reward yourself when you achieve it

Set distinct milestones in your debt pay-off procedure and whenever you achieve each milestone, reward yourself with something you love like watching a movie, or a meal at your favourite restaurant. This motivates you to reach the next one and eventually help you to follow your plan properly. At the same time, make sure to reward yourself

Discipline

Motivation gets you started, while discipline gets you going. Once the plan is set, you should follow it diligently and evaluate in regular intervals to make sure that you are still on track.

